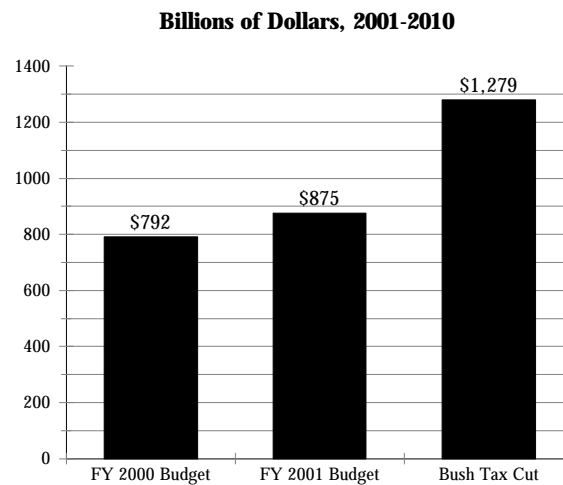
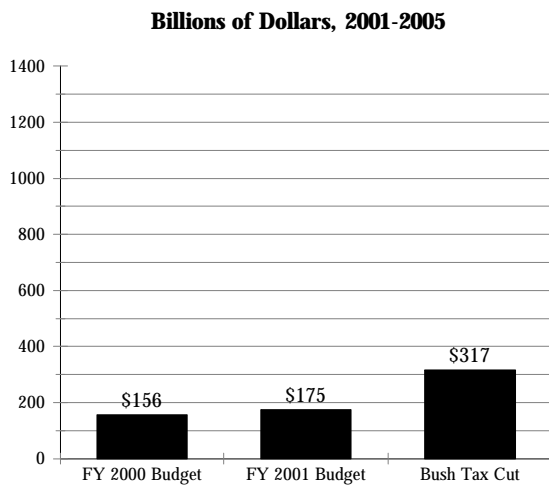


Revenues

The centerpiece of the conference agreement on the Republican budget resolution is a large tax cut that is likely to exceed the tax package Republicans proposed last year. Last year's tax cut resulted in a direct revenue loss of \$156 billion over five years and \$792 billion over ten years. Because enacting such a tax cut would reduce the pace of debt reduction assumed in CBO's baseline, last year's cut had a total cost of \$929 billion over ten years once the associated debt service costs were added.

The conference agreement provides for a total tax cut of \$175 billion over five years, compared with a total tax cut of \$200 billion in the House resolution. The agreement's tax cut consists of a \$150 billion reconciliation directive and a \$25 billion reserve fund for additional tax cuts. The House resolution also had a \$150 billion reconciliation directive but had a larger reserve fund of \$50 billion for additional tax cuts. In addition, the conference agreement establishes a reserve fund to provide additional tax cuts to whatever extent CBO increases projected surpluses in its summer budget update.

Five- and Ten-Year Costs of Republican Tax Cuts



Unlike last year's budget resolution, this year's does not show the ten-year cost. However, tax cuts tend to grow over time because of phased-in provisions and the growth of the tax base as the economy expands. For instance, the ten-year cost of last year's tax cut was more than five times its five-year cost. Even if this year's tax cut grows a bit more slowly than last year's, it would still cost approximately \$875 billion over ten years. If one includes the added debt service, the total cost of the resolution's tax cut could easily exceed \$1 trillion. (See Footnote 4 on page 12 for a fuller explanation.)

Because Republicans give overriding primacy to tax cuts over other budget priorities, the House already had passed two tax cut bills this session before it even considered a budget resolution. Including legislation that passed the House last session, the budget must accommodate the following three major tax bills: an attempt to address the marriage penalty; a package of cuts attached to the increase in the minimum wage; and a medical access bill based on tax preferences, which is in conference.

The table below shows the budgetary costs of these three bills. With the associated debt service costs, these bills consume more than half of the on-budget surplus under a scenario that assumes zero real growth in appropriations. In addition to the bills that already have passed the House, Republicans have announced their intention to move legislation for tax-preferred education savings accounts, expanded IRAs, lower estate taxes, and tax preferences for local economic development.

Republican Tax Cuts That Already Have Passed the House (JCT scoring, in billions of dollars)

| | 2001 | 2001-2005 | 2001-2010 |
|--|-------------|------------------|------------------|
| H.R. 6, Marriage penalty bill | 4.1 | 50.7 | 182.3 |
| H.R. 3832, Minimum wage tax provisions | 2.4 | 45.3 | 122.3 |
| H.R. 2990, Health access | 0.6 | 13.0 | 68.5 |
| Total with duplicating provisions removed | 6.8 | 106.8 | 371.0 |
| Debt service | 0.2 | 12.2 | 83.1 |
| Total including debt service | 7.0 | 119.1 | 454.0 |

Although Republicans used parliamentary maneuvers both in Committee and on the House floor to avoid voting on the package of tax cuts proposed by their presumptive presidential candidate, Governor George W. Bush, they have adamantly insisted throughout that they consider this year's resolution "a significant down payment" on the Bush tax cut. In addition to many provisions already passed in other tax legislation this year, the Bush tax cut also features significant cuts in tax rates. Such lower rates substantially increase the revenue loss of the Bush tax cut. The Bush campaign claims that these tax proposals cost \$483 billion over five years (starting in 2002). The ten-year cost is estimated by the Bush campaign to be \$1.3 trillion for 2002 through 2011.⁵

A tax cut of this magnitude would not be able to avoid using the Social Security surplus, would force even more severe cuts in non-defense appropriations, or both. This is illustrated in the table on the next page.

⁵Attributed to Bush spokesman Ari Fleischer, *Daily Tax Reporter*, BNA Inc., April 26, 2000

The Republican Budget Resolution: Conference Agreement Adjusted to Use the Bush Tax Cut

All figures exclude the Social Security surplus; plus signs indicate costs; dollars in billions

| | 2001 | 2002 | 2003 | 2004 | 2005 | Five years | Ten years* |
|--|------|------|------|------|------|---------------|---------------|
| CBO Surplus w/o Social Security | 15 | 29 | 36 | 42 | 48 | 171 | 893 |
| Tax cuts proposed by Gov. Bush | 13 | 26 | 68 | 85 | 129 | 320 | 1,282 |
| Medicare reform & drugs | 2 | 5 | 8 | 11 | 14 | 40 | 155 |
| Non-defense cuts | -12 | -13 | -19 | -26 | -32 | -102 | -312 |
| Defense increases | 2 | 3 | 2 | 3 | 2 | 12 | 8 |
| Farm payments | 2 | 1 | 2 | 2 | 2 | 9 | 19 |
| Other mandatory policies | a | 2 | 1 | a | a | 4 | 4 |
| Interest costs of policies | 1 | 2 | 4 | 8 | 14 | 30 | 252 |
| Surplus or Deficit (-) w/o Social Security | 8 | 3 | -31 | -41 | -81 | -142 | -515 |

May not add due to rounding.

a = less than \$½ billion

** Outlay estimates for 2006-2010 were projected based on spending policies in 2001-2005. Revenue estimates equal the conference agreement for 2001 and estimates of the Bush tax cut by Citizens for Tax Justice for 2002-2006 (which equal \$483 billion, the same cost claimed by the Bush campaign); revenue losses grow only with the economy after 2006.*